

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2001 through the Fourth Quarter of 2005

The U.S. economic slowdown is expected to dampen the outlook for the Idaho economy. In the July 2001 forecast it was projected the U.S. economy would slow but avoid a recession over the forecast period. The combined impacts of national economic slowing and the terrorists' attacks on America since the previous forecast was published are believed to have pushed the economy into a mild, two-quarter recession that began in the third quarter of this year. A review of the past and current Idaho forecasts show how the economy has softened.

Idaho nonfarm was expected to grow 1.6% in 2001, 1.4% in 2002, 2.2% in 2003, and 2.5% in 2004 in the July 2001 forecast. In the October 2001 forecast it is anticipated Idaho nonfarm employment will expand 1.6% in 2001, 0.4% in 2002, and 2.1% in both 2003 and 2004. This shows Idaho will take its biggest hits next year and in 2003. The delayed response to the U.S. economic slowing and the attacks are primarily the result of two factors. First, there traditionally is a lag between events at the national level and Idaho because it takes a while for changes in demand at the national level to result in changes in production at the local level. Second, the attacks occurred late in this year, so their impact on the total year is limited. Indeed, the impacts will be felt throughout 2002 and beyond. However, the attacks' impacts on the economy will eventually diminish. This is discussed in detail in the feature article included in this publication.

The combination of the national economic slowdown and the terrorist attacks are forecast to have different employment impacts on the Gem State's industries. Idaho manufacturing employment is down about 4,500 in 2004 compared to the previous forecast. Mining employment's prospects have actually improved because of revised historical data and slightly stronger national factors. Idaho mining employment is up 219 in 2004 compared to the previous forecast. The short-term outlook for Idaho's construction employment also improved for similar reasons. Recent data show both Idaho housing starts and construction employment were stronger than had been previously believed. This raised the starting point of the forecast of both of these in the current forecast. Housing starts should receive a boost from lower mortgage interest rates, and this should fuel local construction expansion in the next couple of years. However, in the latter years of the forecast both Idaho housing starts and construction employment are expected to drop below their July 2001 counterparts.

It takes the state's services-producing employment longer to fall below its July 2001 counterpart. As with the manufacturing estimates, revised data raised the starting point for the current forecast. In the current forecast services-producing employment is about 300 (0.1%) higher than in the previous forecast. However, next year this sector's employment is about 200 (0.0%) lower as the impacts of the weaker national economy spread to Idaho. By 2004, Idaho services-producing employment is down nearly 1,000 compared to the previous forecast. Idaho nominal personal income is actually higher in 2001 than previously forecast thanks to a data revision. After this year, however, Idaho nominal personal income is lower than its July counterpart. Specifically, it is down \$125 million (0.4%) in 2002, \$109 million (0.3%) in 2003, and \$320 million (0.8%) in 2004. Because of the lower inflation in the current forecast, Idaho real personal income takes less of a hit. It is down \$25 million (0.1%) in 2002, \$12 million (0.0%) in 2003, and \$226 million (0.7%) in 2004.

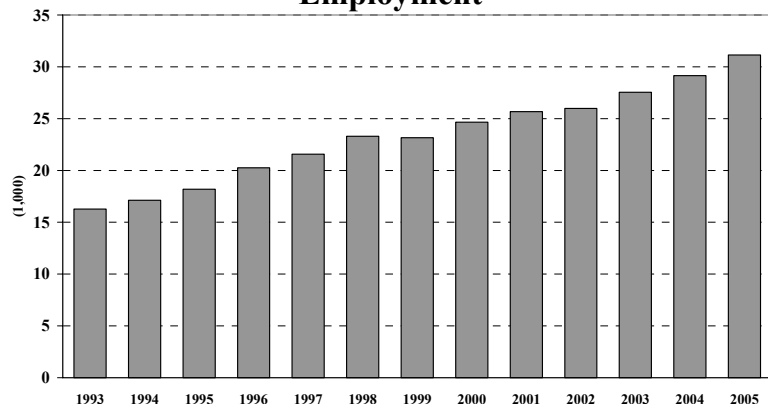
In summary, the outlook for Idaho's economy has softened since last July. But this does not mean the state's economy is declining. Although the expected growth pace has been lowered, growth remains nonetheless. Idaho nonfarm employment and personal income are both expected to expand over the forecast period.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery:

The Idaho electrical and nonelectrical employment forecast has been revised downward from the previous forecast. In the July 2001 *Idaho Economic Forecast* it was projected that employment in the state's largest manufacturing category would grow an average of 5.7% annually from 2000 to 2004. In the current *Forecast*, this sector's employment is expected to expand 4.3% per year over the same period. The most notable changes occur this year and next. It was previously believed that electrical and nonelectrical employment would rise 5.1% in 2001 and 5.5% in 2002. In the new forecast it increases by 4.1% this year and by just 1.2% next year. Thus, by 2002 employment is expected to be 25,984, which is about 1,400 less than had been forecast in July 2001. There are two major reasons why this sector's employment prospects have been downgraded. First, local high-tech firms have been hit harder by the industry slowdown than had been previously thought. Idaho firms have announced plans to reduce payrolls by nearly 3,000 persons this year alone. These layoffs have been spread across several key Idaho firms, such as Hewlett-Packard; Jabil Circuit; Micron Electronics; SCP Global Technologies; Extended Systems; MCMS; and Zilog. Some locales will be more heavily impacted than other areas. For example, Boise's large and diversified job market is better able to absorb these losses than smaller markets. For example, Pocatello will feel the sting of job losses at AMI, one of its most important employers. It comes at a particularly bad time because another huge Pocatello employer, Astaris, plans to close its plant later this year. A notable exception to the list of high-tech companies announcing layoffs has been Micron Technology. The Boise Valley's largest private employer (and the world's leading producer of dynamic random access memory) has not cut jobs during the high-tech industry's current downturn. Instead, it has recently initiated a hiring freeze. This has had an impact on the employment outlook because Micron Technology has been a steady engine of growth, adding 100 to 200 jobs per month. The absence of these additional jobs has influenced the current employment forecast. The slower-than-anticipated recovery in business investment also contributed to the lowered employment projections. Real business investment on computers was previously expected to rise 13.3% in 2001 and 21.0% in 2002. The current forecast shows investment in computers falling 0.9% in 2001 and growing just 3.4% in 2002. Idaho's electrical and nonelectrical machinery sector employment should grow from 24,667 in 2000 to 31,141 in 2005.

Idaho Electrical & Nonelectrical Employment

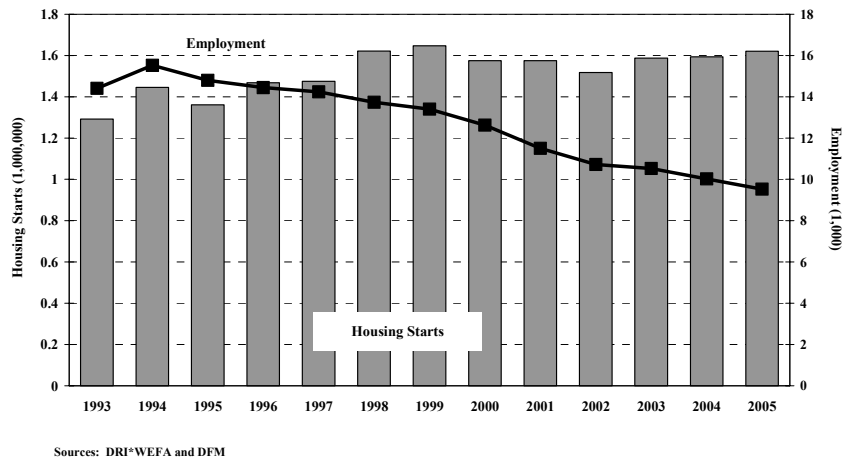


Lumber and Wood Products: The protracted slide of Idaho's lumber and wood products sector employment is expected to continue over the forecast period. This is the continuation of a region-wide downturn that began in the 1990s. The May 2001 issue of Random Length's *Yardstick* provides statistics on how widespread and severe this decline has been. The article points out that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. These closures have taken a heavy human toll. Job losses have been high. From 1989 to April 2001, an estimated 43,581 jobs have been lost in the region. The number of Idaho lumber and wood products jobs has declined from 14,747 in 1989 to 12,626 in 2000. Interestingly, the 5.8% decline in 2000 was

the largest in recent years. Falling product prices plagued this industry through most of 2000. Soft prices forced permanent job cuts at several Idaho mills. Potlatch Corporation let go of 140 salaried workers in the summer of 2000. Crown Pacific closed its 150-employee Coeur d'Alene mill indefinitely in late July 2000. Potlatch shuttered its Jaype Mill near Pierce in August 2000, a move that cost 215 jobs. Much of the decline can be traced to the falling timber harvest in Idaho. According to U.S.

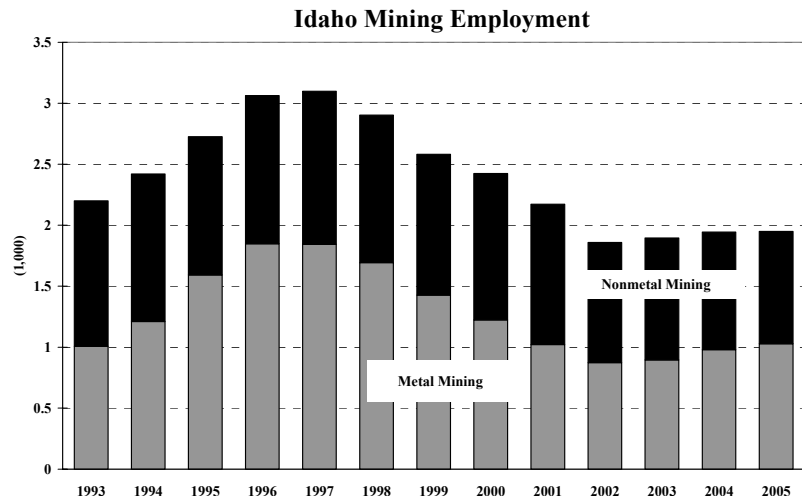
Department Agriculture records, the total amount of timber harvested in Idaho fell from 1.9 million board feet in 1989 to 1.3 billion board feet in 1999, a 30% decline. Dwindling harvests from national forests in Idaho accounted for most of this drop. This traditionally huge portion of the overall harvest fell an astounding 80% over this ten-year period. The reduced availability of federal timber was a major reason Boise Cascade Corporation shut down its Cascade sawmill and closed most operations at its Emmett plant this year. The Emmett plant lost 250 jobs and 125 jobs were lost when the Cascade plant closed. Unfortunately, these communities suffered more than job losses. Communities with national forest depend on payments in lieu of taxes (PILT) from federal timber sales. In these communities, federal lands are not on property tax rolls. Instead, these communities receive 25% of the revenue from federal timber sales in their locale. Of course, the size of the PILT is directly related to the size of the timber sale. Thus, the declining federal harvests over the last decade have slowly starved the budgets of rural governments. The Idaho Department of Labor reports PILT to these counties have declined 75% from 1989 to 2000. These communities will get relief in the form of the Craig-Wyden Bill that was passed in 2000. The bill stabilizes timber sales payments by averaging the three highest payments from 1986 to 2000. The counties will receive this amount over the next six years. Supply remains one of the biggest challenges facing Idaho's lumber and wood products sector. Most notably, uncertainties concerning timber supplies from federal forests are far from being resolved. Another concern is what impact the expiration of the Softwood Lumber Agreement the U.S. has with Canada will have on supplies. Domestic producers fear Canadian mills will flood the U.S with lumber and wood products. This industry is awash in supply thanks to excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. These pressures will become more acute over the next few years as the anticipated slowing of the global economy limits markets for lumber and wood products. Idaho lumber and wood products employment is forecast to drop from 11,503 in 2001 to 9,525 in 2005.

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



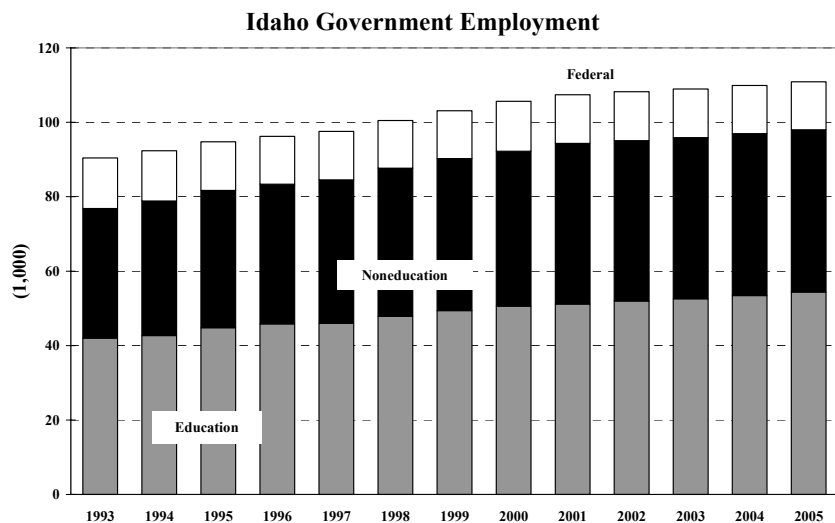
Mining and Chemicals: The state's chemical sector was dealt a harsh blow with the Astaris announcement that it will close its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. Since then, employment had fallen to about 300 employees, all of whom will lose their jobs when the plant closes later this year. Company officials cited competitive, environmental, and energy reasons for the plant closure. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-

McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium. Idaho chemical employment should decline from 2,241 in 2001 to 1,774 in 2005. This setback to the chemical industry occurs as the state's mining industry is in the midst of its own downturn. After peaking near 3,100 jobs in 1997, Idaho mining sector employment has declined in each year since then. One of the mining industry's latest blows came last winter when the Sunshine Mine closed. While low prices for its output has bedeviled the mining industry, it was not the reason for this closure. The Asarco smelter in East Helena, Montana closed in February of this year, leaving Sunshine Mine without a place to send its silver concentrate. It was recently announced that Hecla Mining's Lucky Friday Mine would also close, a move that will eliminate 100 jobs. With the Sunshine and Lucky Friday mines closed, only Coeur Silver Valley Resource's Galena Mine remains in operation in Idaho's historic Silver Valley. Idaho mining employment is expected to drop from 2,172 in 2001 to 1,949 in 2005.



Federal, State, and Local Governments:

Idaho government employment growth is partially tied to its population. This being the case, Government employment growth in the Gem State is expected to slow along with its population over the next few years. Idaho's population growth is the result of two major components: natural population growth and domestic migration. (International migration is not a significant contributor to overall Idaho growth.) Natural population growth is simply the



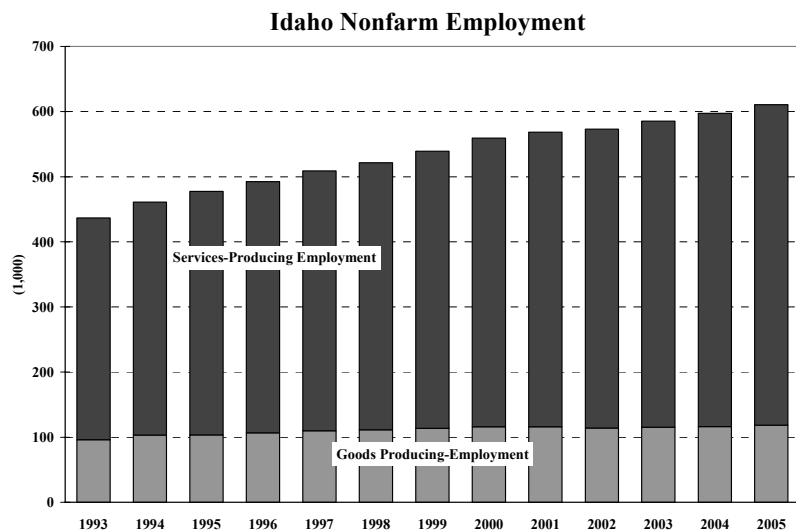
number of births less the number of deaths. In Idaho, natural population growth provides steady, but uneventful, growth. Traditionally, large swings in the state's population growth are caused by domestic migration. The 1990s serve as a classic example of this phenomenon. Idaho's population jumped 28.5% from 1990 to 2000. Net migration accounted for 191,550 or two-thirds of this increase total. In contrast, more people moved out of the state than entered it during the 1980s. As a result, the population increased just 6.6% that decade. There are several reason for the state's population explosion in the 1990s, but its strong economy relative to the rest of the country was a prime determinant. U.S. nonfarm employment shrank by nearly 1.0% from 1990 to 1992, and for California

slow growth lingered even longer. Idaho nonfarm employment advanced more than 8.0% over this same period. The favorable economic conditions made Idaho a magnet for migration. A surge of migration hit Idaho in the first half of the 1990s. In each of the three years from 1992 to 1994, net migration was over 20,000. This helped the state's population grow by about 3.0% in each of those years, which was nearly three times faster than the nation. The combination of the slow growth in the 1980s and the 1990's rapid rise in population strained the state's infrastructure. In response to these pressures, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade. By the end of the 1990's Idaho's population growth was about half as fast as in the early 1990s. This has given Idaho state and local governments the opportunity to catch up with infrastructure needs. As these needs are met, Idaho state and local employment growth is expected to slow. In addition, Idaho local government budget caps will further limit employment gains. Idaho state and local government employment is forecast to increase 2.3% in 2001, 0.8% in 2002, 0.9% in 2003, 1.1% in 2004, and 1.1% in 2005. Idaho state and government employment can be divided into its education and non-education components. Idaho education employment is forecast to rise 1.2% this year, 1.6% next year, 1.2% in 2003, 1.6% in 2004, and 1.7% in 2005. Idaho non-education government employment should increase 3.7% in 2001, fall 0.2% in 2002, and increase 0.4% in 2003, 2004, and 2005. Idaho federal government employment is anticipated to feel the impact of federal budget cutting; it is expected to decline slowly over the forecast period. It is assumed that most of the declines will be from attrition instead of layoffs. Idaho federal employment should drop from 13,427 in 2001 to 12,880 in 2005, a cumulative decline of 4.0%.

Services-Producing Industries:

The state's services-producing sector consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Given this broad definition, it is no wonder it accounts for most of the jobs in Idaho. Like its national counterpart, Idaho's services-producing sector continues to grow and evolve. The biggest change has been the move away from a goods-producing economy to a services-producing one. This can be seen in the

nonfarm job data. In 1970, just over one of every four jobs in Idaho was in the goods-producing sector (manufacturing, mining, and construction). Three decades later, the goods-producing sector accounts for one of every five jobs. Trade and services account for more than half the employees of the services-producing sector. These two categories have benefited from ongoing structural changes. One such trend is the increasing presence of national "big-box" merchandisers in the Gem state. For example, trade employment in 2001 was boosted by the opening or expansion of several Wal-Mart, Fred Meyer, and Home Depot stores. An evolutionary change in this sector has been the growth of back-office operations and call centers. Many companies are no longer tied to the location of key natural resources or markets. Changing technology make it possible for them to operate virtually anywhere. For example, landlocked Boise is the home to an international shipping company's scheduling operations. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also encompass a wide variety of business activities. These



include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. One of the most pleasing aspects of this growth is how diverse it has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. Business services employment has also expanded thanks to the growing use of temporary employees. Some temporary employees work at manufacturing firms. Although they perform manufacturing tasks, they are technically employed by employment agencies, and are counted in the business service component. Services-producing employment is projected to increase 2.1% in 2001, 1.5% in 2002, 2.4% in 2003, 2.4% in 2004, and 2.3% in 2005.

Construction: Idaho's economy is expected to enter the first half of this decade without the support of the construction sector. This marks a significant departure from the 1990s when the construction sector was a key component of growth. Actually, the construction industry's strength reaches further back past the 1990s and into the latter years of the 1980s, when the current Idaho economic expansion was in its earliest stages. Gem

State construction employment rose slowly in 1988 (3.5%) before taking off in 1989 (13.1%). While the magnitude of this turnaround is noteworthy, its duration has been just as impressive. From 1989 to 1999, the number of construction jobs in Idaho advanced 8.2% per year. In comparison, Idaho total nonfarm employment growth averaged 4.0% per year over the same period. The growth in construction employment resulted primarily from the booming housing market caused by the state's rising population. During the 1990s, Idaho's population rose up to three times as fast as the national population. Not surprisingly, housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Interestingly, Idaho never developed the inventory overhang problem that can follow construction booms. Housing starts did settle down to about 9,400 units in 1995, but strong nonresidential construction kept this sector's employment healthy. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. Idaho construction employment is likely to suffer losses associated with the closing of Astaris' Pocatello phosphorus plant. More than 500 construction workers were building a waste treatment facility at the plant. This \$120 million project has been suspended, putting these jobs in jeopardy. Idaho construction employment is expected to drop from 37,247 in 2001 to 35,826 in 2005. Idaho housing starts are forecast to be 11,794 units in 2001, 10,629 in 2002, 9,964 in 2003, 10,053 in 2004, and 10,212 in 2005.

